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RUEHJI/AMCONSUL JEDDAH PRIORITY 0338
RUEHJM/AMCONSUL JERUSALEM PRIORITY 0470
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UNCLAS TEL AVIV 002132

STATE FOR NEA, NEA/IPA, NEA/PPD

WHITE HOUSE FOR PRESS OFFICE, SIT ROOM
NSC FOR NEA STAFF

SECDEF WASHDC FOR USDP/ASD-PA/ASD-ISA
HQ USAF FOR XXXX
DA WASHDC FOR SASA
JOINT STAFF WASHDC FOR PA
CDR USCENTCOM MACDILL AFB FL FOR POLAD/USIA ADVISOR
COMSOCEUR VAIHINGEN GE FOR PAO/POLAD
COMSIXTHFLT FOR 019

JERUSALEM ALSO ICD
LONDON ALSO FOR HKANONA AND POL
PARIS ALSO FOR POL
ROME FOR MFO

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E.O. 12958: N/A
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SUBJECT: ISRAEL MEDIA REACTION

SUBJECTS COVERED IN THIS REPORT:

Mideast

Key stories in the media:

This morning Maariv and the electronic media reported that FM Tzipi Livni defeated Transportation Minister Shaul Mofaz by 431 votes in the Kadima primaries (43.1% - 16963 votes to 42% - 16555 votes). Interior Minister Meir Sheerit got 8.5% of the votes; and 6.5% went to Internal Security Minister Avi Dichter. Last night exit polls by

TV stations had forecast that Livni would win by 10-12%. Commentators called this discrepancy the "Yom Kippur of the polls" (after the Yom Kippur War). The media reported that Livni would have to choose between forming a coalition -- she has up to 42 days to do so -- and calling for new elections. Shas and Labor Party officials cast doubt on her ability to form a government. IDF Radio reported that Labor prefers to remain in the coalition, in an attempt to avoid general elections.

Israel Radio quoted Livni as saying after the publication of the results that she will begin her meetings with Knesset faction members to establish a coalition as soon as possible, and that she would take action to unite Kadima. Livni was quoted as saying that her rivals were rivals of the moment, and that now they would set out on the road together. She stressed that the national mission she faces is to promote government stability and eliminate uncertainty. She thanked her supporters and said that the hope that they had placed in her will enable her to treat the post of Kadima chairman and prime minister of Israel as sacred. Livni said that Kadima proved today that there is another type of politics.

Ha'aretz reported that PM Ehud Olmert will inform the cabinet of his resignation on Sunday.

Yediot reported that yesterday the new ambassadors of Egypt and the U.S. presented their credentials to President Shimon Peres.

Leading media reported that the PM's point man on prisoner exchanges, Ofer Dekel, left yesterday for Egypt, and that he expected to present the Egyptian government with new, more flexible ideas on negotiations with Hamas. Yediot reported that yesterday, despite objections by Gilad Shalit's family, the GOI transferred 50 million shekels (around \$24 million) to the PA in Gaza.

The Jerusalem Post reported that a fifth round of indirect Israeli-Syrian talks in Turkey that were expected to take place tomorrow and Friday have been postponed, but neither Israeli nor Turkish sources confirmed remarks made yesterday by Syrian FM Walid Muallem that Israel asked for the delay.

Major media reported that in two days of trading, Israel's five biggest banks lost 7 billion shekels (around \$1.972 billion) in value. Since the start of the year the banks have lost 24 billion shekels (around \$6.76 billion) from their combined market capitalization on the Tel Aviv Stock Exchange -- 40% of their value. Ha'aretz reported that yesterday, in a meeting with Bank of Israel Governor Stanley Fischer and Banks Supervisor Rony Hizkiyahu, the managing directors of the seven largest banks in Israel reported that exposure of commercial banks to the collapse of U.S. investment banking giant Lehman Brothers is limited. The banking system has taken steps to protect itself from the effects of the financial crisis in the U.S., they said. Ha'aretz reported that from the start of 2008 the index of Israeli shares on NASDAQ has lost around 24%, dropping to its lowest level since its launch on November 17, 1999. The Jerusalem Post reported that the local property market is expected to take a hit from the American meltdown.

The Jerusalem Post reported that in an interview with the Iranian Press-TV, Lauren Booth, the sister-in-law of Tony Blair, called Gaza a "concentration camp" and a "humanitarian crisis on the scale of Darfur."

Makor Rishon-Hatzofe reported that yesterday for the first time a group of Neturei Karta ultra-Orthodox took part in an anti-security fence demonstration in Na'alim.

Citing a Reuters report, Ha'aretz quoted CIA Director Gen. Michael Hayden as saying on Tuesday that the destruction of a suspected Syrian nuclear reactor in September 2007 was the result of an intelligence collaboration that included a "foreign partner" who first identified the facility's purpose.

All media reported on yesterday's attack against the U.S. Embassy in Sanaa, which was purportedly carried out by Al-Qaida. Maariv reported that an Israeli businessman residing in New York, a former IDF officer, sold a computer defense program used by the Israel Police to an Arab state.

The Jerusalem Post reported that the 26th Conference of Mayors is underway in the city this week with more than 40 mayors and governors from around the globe. The newspaper said that previous conferences were the "quintessential mix of tourism and socializing, with a little international municipal comparison and discussion mixed in." Starting this year, the U.S. mayors in attendance were provided with business-development meetings so that they could bring something tangible back to their communities.

The Jerusalem Post reported that all visa requirements for Israeli and Russian nationals traveling between their countries will be canceled as of Saturday.

Maariv "new journalism" columnist Ron Maiberg wrote that although he used to hold a Green Card and he loves Americans, they unnerve him and he would never take an American passport.

I. Mideast:

Summary:

Diplomatic correspondent Aluf Benn wrote in the independent, left-leaning Ha'aretz: "Whoever succeeds Olmert will ... have to choose among less than stellar options.... There is no reason to be jealous of the winner."

Veteran journalist Hemmi Shalev wrote on page one of the independent Israel Hayom: "Livni needs to be careful not to squander the credit she has built up and the momentum she has gained from her victory by engaging in cynical and enervating coalition negotiations."

Senior columnist Nahum Barnea wrote in the mass-circulation, pluralist Yediot Aharonot: "The real battle begins now. Livni still hasn't put together a political team that can help her meet the challenges that lie ahead."

Diplomatic correspondent Herb Keinon wrote on page one of the conservative, independent Jerusalem Post: "The fate of the Israeli-Palestinian diplomatic process will be determined more by whom the Palestinians select as their leader ... than on whom the 40,000 or so Kadima voters ... decided should succeed Olmert."

Block Quotes:

I. "Don't Envy the Winner"

Diplomatic correspondent Aluf Benn wrote in the independent, left-leaning Ha'aretz (9/18): "On what will Olmert's heir be able to focus?.... Serious negotiations with the Palestinian Authority will endanger the coalition because of Shas, and in any case, the public doesn't believe that such a deal is possible.... Getting the talks [with Syria] to the next level ahead of a deal requires American intervention; the outgoing administration isn't interested, and the incoming one will need some time to formulate a policy. Preparing the country to face the Iranian threat will ... take away Netanyahu's best card in the general election. But the risk here is great. The public will start expecting a preemptive war against Iran to keep it from developing nuclear weapons. This would require American support, which does not currently exist, but failing to follow through would turn the prime minister into a pathetic figure.

If the new prime minister initiates a conflict with the settlers, as Ariel Sharon did, that would strengthen Kadima in the eyes of centrist voters but would create a deep internal rift, and it's doubtful that Olmert's successor will have the public standing or political ability to make such a move. Going to elections hastily, before the leadership of Olmert's heir gets imprinted onto the public consciousness, would be political suicide.... Whoever succeeds Olmert will therefore have to choose among less than stellar options, putting the new leader to a complex test at a time when the public wants to find its way out of the doldrums of the past two years, but does not believe in the political system. One can only conclude that there is no reason to be jealous of the winner."

II. "The Golda-Palin Effect"

Veteran journalist Hemmi Shalev wrote on page one of the independent Israel Hayom (9/18): "The good news is that Livni's victory last night will hasten the end of Prime Minister Ehud Olmert's failed term in office and will expedite purging politics of the ills that he ushered in. At the very least, it will kindle hope of a calmer public discourse and of cleaner governmental politics. There are some people who question Livni's moral right to form an alternative coalition government, but one cannot deny her legal right to try. The potential partners all seem to be talking about their desire to hold elections quickly, but experience has taught us that we can be skeptical about those statements, some of which are made more as a means of establishing a bargaining position than as a matter of principle. With that having been said, after weeks of campaigning that wasn't terribly pleasing aesthetically, Livni needs to be careful not to squander the credit she has built up and the momentum she has gained from her victory by engaging in cynical and enervating coalition negotiations. A few weeks of wholesale give and take with the sly Shas foxes will be enough to crack her Mother Theresa image and send Livni, beaten, tarred, and feathered, in the event of failure, into general elections."

III. "Yes to Livni"

Senior columnist Nahum Barnea wrote in the mass-circulation, pluralist Yediot Aharonot (9/18): "Livni's victory ... did not stem from an organizational feat or political alliances. It stemmed from the yearning within the general public for a new, fresh, and mainly clean leadership. Livni succeeded at being, at least for now, both a princess and Cinderella. She is a princess because she was born into a political household and entered the political establishment under the wing of the [Likud] party elders, who were fonder of her parents than they were of her. She is Cinderella because her rise to the top was so swift. Her prince was Ariel Sharon. Politicians and the other party leaders were right to say last night that Livni's election was still a far cry from ensuring her the premiership. She is going to have to engage in exhausting negotiations that will oblige her to be more cunning and manipulative than she has ever had to be before. That does not mean that her chances of forming a new coalition government are negligible.... The real battle begins now. Livni still hasn't put together a political team that can help her meet the challenges that lie ahead."

IV. "Palestinian Internal Politics Are Even More Important than Kadima Primary"

Diplomatic correspondent Herb Keinon wrote on page one of the conservative, independent Jerusalem Post (9/18): "The fate of the Israeli-Palestinian diplomatic process will be determined more by whom the Palestinians select as their leader in January -- if indeed elections in the Palestinian Authority are held -- than on whom the 40,000 or so Kadima voters who troubled themselves to go to the polls Wednesday decided should succeed Olmert. We Israelis like to think we're in control, that we dictate the pace and outcome of events. But we don't. There is another side, and what is happening over there domestically is equally important, if not more important, to the fate of the diplomatic process than what is happening over here. The question of whether Hamas manages to wrangle control of the PA from Fatah or whether Fatah succeeds in wresting back control in Gaza is more important in the long run for the peace process than whether Tzipi Livni or Shaul Mofaz becomes Kadima's leader and -- possibly -- the prime minister for a few months."

CUNNINGHAM